

CALIFORNIA ENERGY COMMISSION

1516 Ninth Street
Sacramento, California 95814

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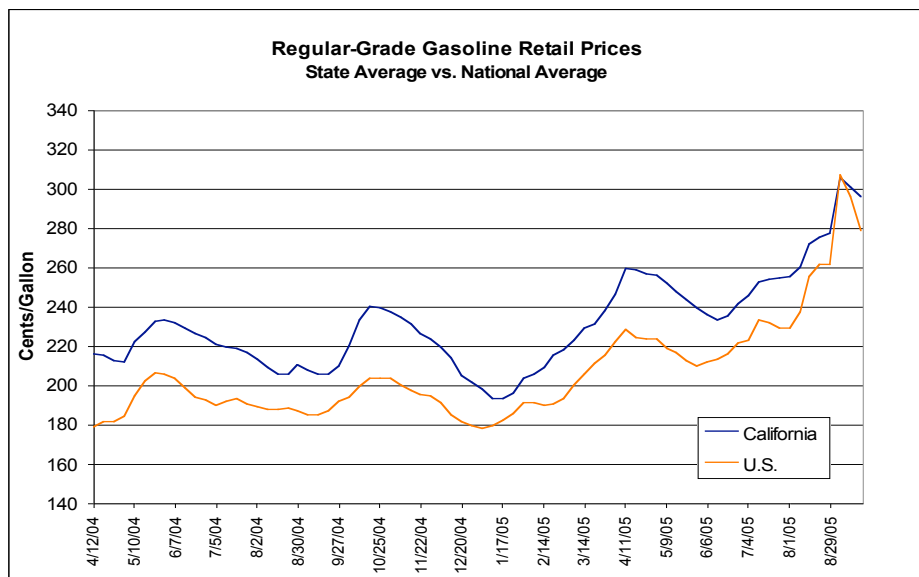
Main website: www.energy.ca.gov

Children's website: www.energyquest.ca.gov

Consumer Information: www.ConsumerEnergyCenter.org

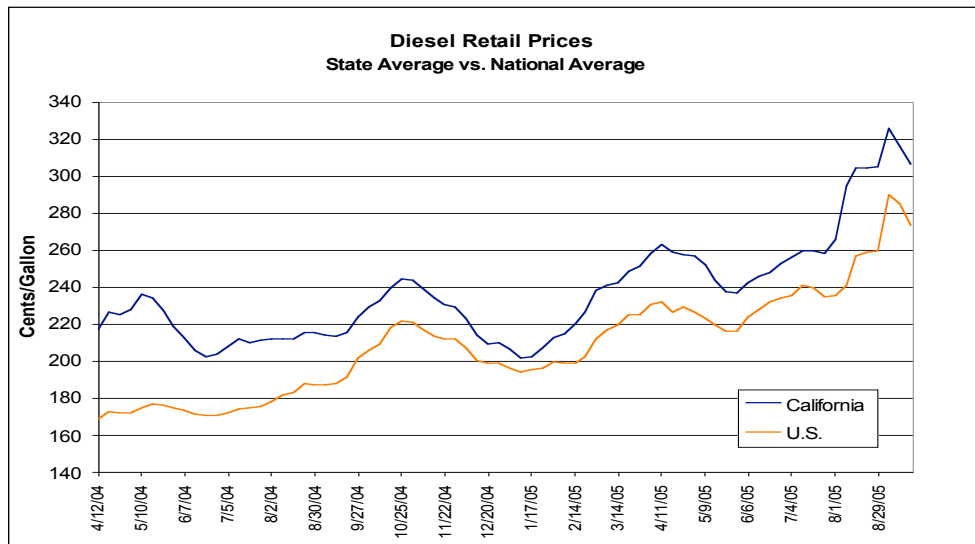
**Petroleum Watch****September 23, 2005*****Retail Gasoline and Diesel Prices***

- The statewide average price for regular gasoline was \$2.95 per gallon. The difference between U.S. and California retail prices grew sharply, as national average prices fell to almost 17 cents below California prices.



Retail prices in California and the U.S. breached the \$3 per gallon mark, before dropping back in the last 2 weeks.

- California retail diesel prices dropped after a record-high \$3.25 per gallon, prices fell 19 cents to \$3.06 on September 19, but still remain 91 cents above a year ago. Concerns continue over loss of distillate supplies due to refinery problems, high demand for diesel and other distillates worldwide, and adequacy of distillate supplies for next winter as sulfur regulations are tightened.



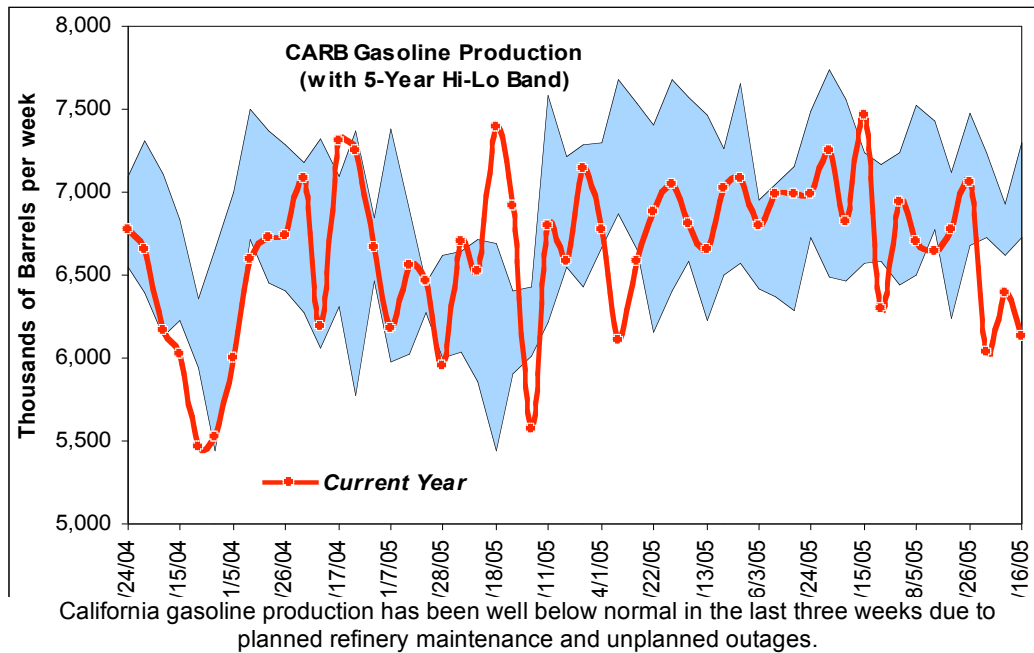
Unlike gasoline prices, retail diesel prices in California have maintained their typical differential to U.S. retail prices during recent price spikes.

Wholesale Gasoline and Diesel Prices

- These latest retail prices do not reflect wholesale prices affected by the threat from Hurricane Rita. Wholesale gasoline prices dropped from record high levels after Hurricane Katrina. According to the EIA, Los Angeles spot wholesale gasoline prices spiked 90 cents in a week to peak at \$2.96 on August 31, before plunging 83 cents to \$2.13 by September 9, then rebounding 20 cents to \$2.33 by September 19, and finally dropping 7 cents the next day. But spot markets are now responding to the new threat from Hurricane Rita. Other proprietary pricing services reported spot price increases on September 20-21, due to major refiners securing supply prior to the impending arrival of Hurricane Rita.¹
- Wholesale California diesel price volatility has been less severe than for gasoline. Los Angeles spot wholesale diesel prices hovered around \$2 per gallon between September 8 and September 16, after falling from a peak of \$2.47 on September 1. By September 20, Los Angeles spot diesel prices had jumped to \$2.12.
- The latest EIA weekly assessment shows U.S. implied gasoline demand at 8.8 million barrels per day. This is the third straight week of daily demand averaging below 9 million barrels.

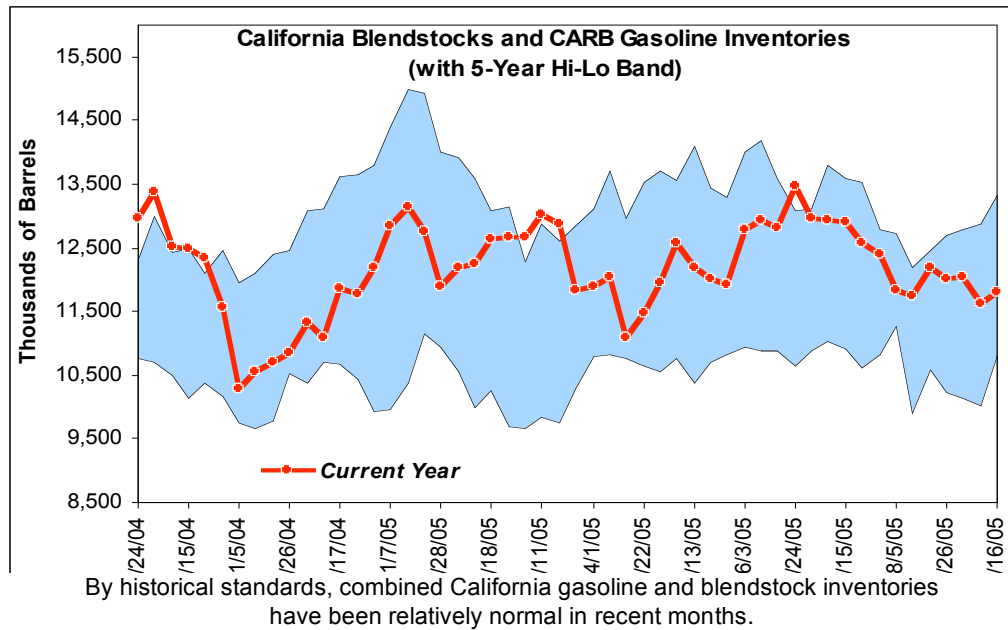
Refinery Production and Inventories

- Following Hurricane Katrina, Gulf Coast oil production, over 1.4 million barrels per day, was shut down. As of September 20, oil production levels are about 56 percent of normal, or about 877,000 barrels per day. Substantial production could remain shut down for months. Hurricane Rita could cause as many as 10 refineries in the

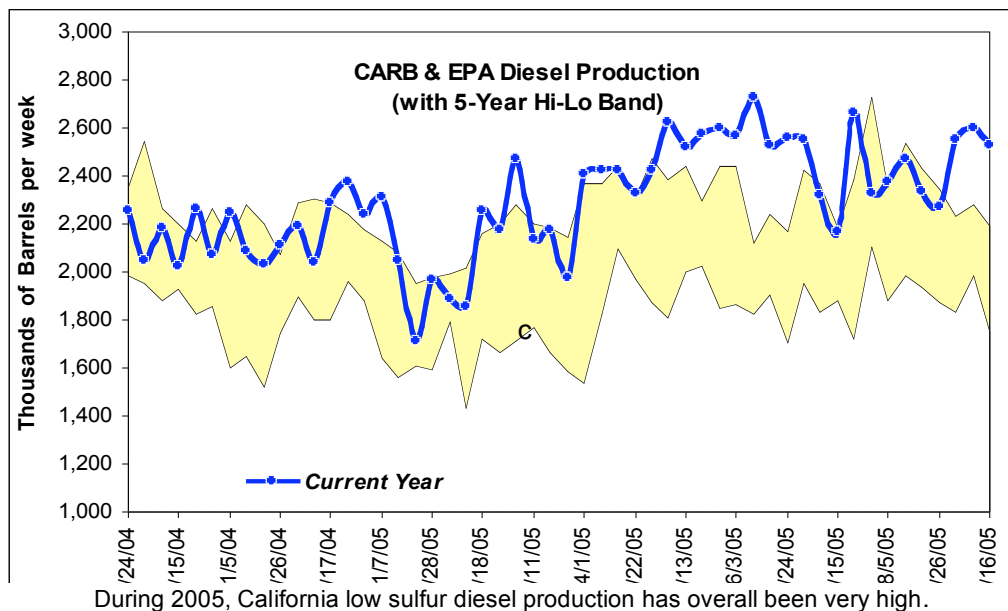


Gulf area, with capacity of almost 2.7 million barrels per day of refining capacity, to shut down operations. A slight turn in the hurricane's track could also place 7 refineries with 1.7 million barrels per day of capacity at risk.

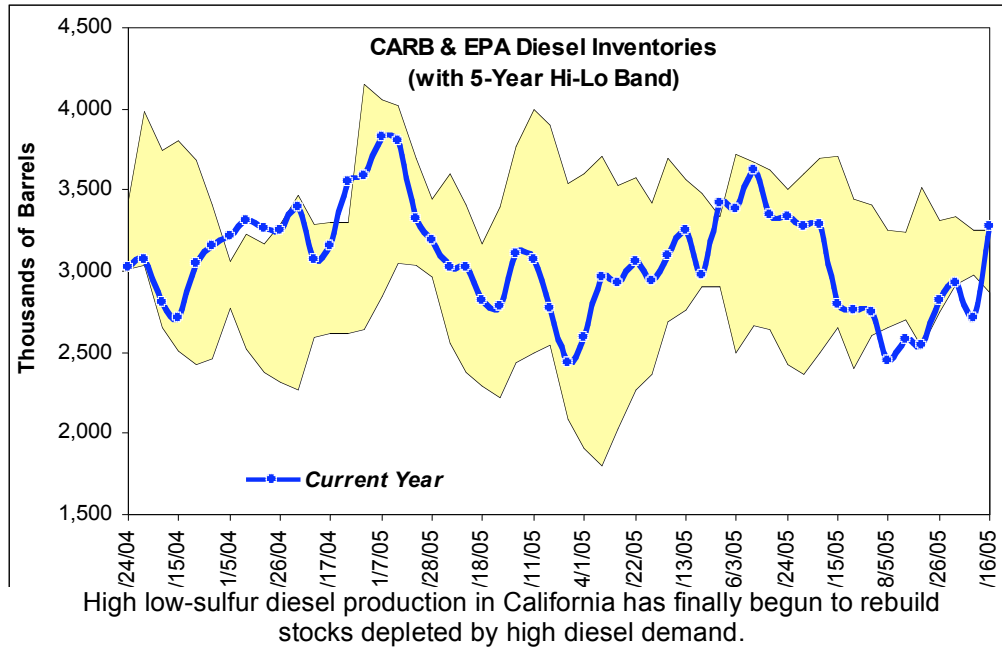
- Planned refinery maintenance and unplanned outages during late August, followed by facility shutdowns due to electrical outages in Los Angeles, kept reformulated gasoline output in California below 6.5 million barrels for the last 3 weeks. Production fell to just over 6.1 million barrels for the week ending September 16, down 4 percent from the previous week and well below the 5-year range.
- Reformulated gasoline inventories in California fell for the third straight week, down 2 percent from the previous week and 29 percent below the previous year. Gasoline blending components stock compensated for this decline to some extent, rising 4 percent from the previous week and 7 percent from the previous year. Combined reformulated gasoline and gasoline blendstock inventories remain in the middle of the range for the previous 5 years. However, these stocks are down over 11 percent from last year.²



- California refineries manufacture two types of low sulfur diesel: diesel that meets California standards and diesel for use in other states that meets U.S. EPA standards. California diesel production rose almost 7 percent from the previous week and was up 33 percent from a year ago. However, U.S. EPA diesel production in the state fell 24 percent from the previous week and 12 percent from last year.

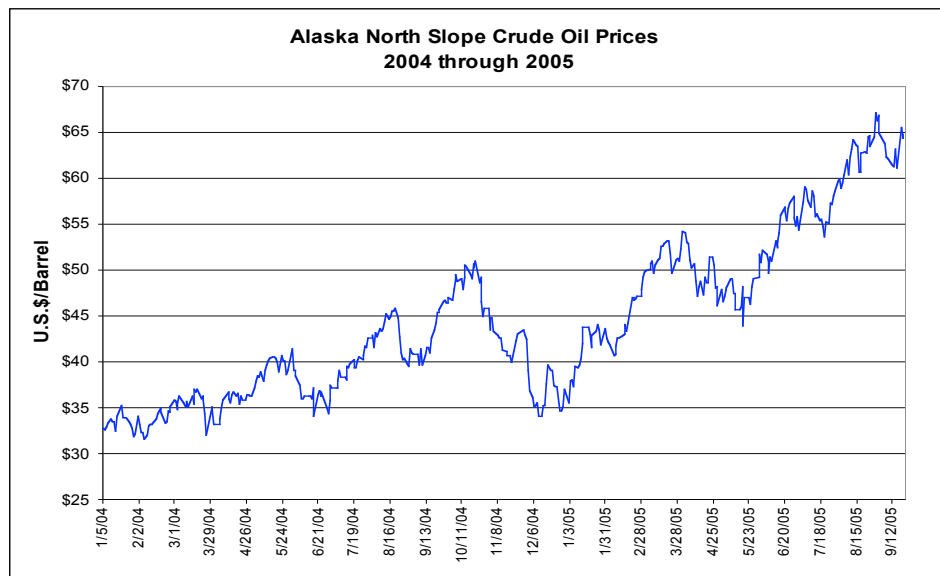


- As of September 16, state low-sulfur diesel inventories had jumped almost 21 percent from the previous week and were at the high end of the 5-year range.



Crude Oil Prices and Inventories

- After peaking on August 30, world crude oil prices had begun to settle down. As a result of concerns over Hurricane Rita, prices for Alaska North Slope crude oil, an important refinery input for making gasoline and diesel on the West Coast, rebounded to \$64.70 as of September 21.³



In 2005, the cost of crude oil has comprised between 42 and 56 percent of the retail price of a gallon of California regular-grade gasoline.

- U.S. commercial crude oil stockpiles totaled 308 million barrels as of September 16, almost 39 million barrels above last year and about 23 million barrels over the average of the previous 5 years.

- World oil supplies have been strained due to U.S. hurricanes, low levels of excess oil production capacity worldwide, and almost three years of high petroleum demand growth. At the same time, supplies have been supported by the release of oil and petroleum products from the International Energy Agency (IEA) member countries' strategic reserves, the virtual lifting of Organization of Petroleum Exporting Countries (OPEC) production limits, high crude oil inventory levels, and signs of softening demand for gasoline.
- As of September 19, the U.S. Department of Energy approved releases of 13.2 million barrels of crude oil from the Strategic Petroleum Reserve (SPR) to U.S. refiners. The reduced crude oil production from the Gulf of Mexico may necessitate additional releases from the SPR over the coming weeks. IEA member countries have made available 2.1 million barrels per day of petroleum from their strategic reserves. OPEC has essentially agreed to make all available excess crude oil production capacity available at consumer countries' request.

¹ Spot wholesale and retail gasoline and diesel prices are from the Energy Information Administration of the U.S. Department of Energy.

² California refinery production and inventory information are from the Petroleum Industry Information Reporting Act (PIIRA) database maintained by the California Energy Commission.

³ ANS crude oil prices are from the Wall Street Journal. U.S. crude oil and product inventory estimates are from the Energy Information Administration of the U.S. Department of Energy.